

# MONTHLY REVENUE REPORT

## July 2003

The revenue collected from Michigan's major General Fund and School Aid Fund earmarked taxes totaled \$1.56 billion in July 2003. These tax collections in July were 9.3% below last year's level. Tax collections were expected to be down in July, due largely to some noneconomic factors that affect monthly collection patterns, but the decline was about twice as much as had been expected. The largest shortfalls were experienced by the income, sales, use, single business, insurance, State education property, real estate transfer, estate, and oil and gas severance taxes. The only taxes that posted an increase in July from last year's level were the tobacco tax, which continues to be up from year-ago levels due to the tax rate increase that went into effect in August 2002, and the casino wagering tax. On a fiscal year-to-date basis, collections for these major taxes are down 1.9% from the comparable year-ago levels. Compared with the Senate Fiscal Agency's estimated monthly breakdown of the FY 2002-03 consensus revenue estimates, fiscal year-to-date actual collections for these major taxes are below the consensus estimate by about \$150 million. In order to reach the consensus estimate of 3.0% growth for FY 2002-03, tax collections during the final quarter of FY 2002-03 will have to top last year's collections by 16.4%. This large increase includes the estimated \$455 million that will be collected as a result of the acceleration in the due date of the State education property tax. Excluding this one-time gain in revenue, tax collections during the next three months will have to post a 7.5% increase in order to hit the consensus revenue estimate.

Net income tax collections totaled \$484 million in July, which was down 8.8% from the year-ago level. Gross collections, which include the income tax withheld from workers' paychecks, along with quarterly and annual payments, were down 8.1%. About 2.5 percentage points of this decline can be attributed to the reduction in the tax rate, which is currently 4.0% compared with 4.1% last year at this time. The remaining weakness in Gross income tax collections was due primarily to the continued slump in the number of people employed, along with low capital gains, interest, and dividend income. Income tax payments refunded to taxpayers were only \$24 million in July, but topped last year's level by 9.7%, which further depressed net income tax collections compared with last year's level. So far this fiscal year, net income tax collections are down 6.6%, which is running below the consensus estimate of a 1.9% decline for FY 2002-03.

Sales tax collections totaled \$578 million in July, which was down 8.8% from last year's level. This sharp decline can be attributed largely to a noneconomic timing issue regarding the number of weekends in a month. Weekends tend to have a greater proportion of a week's retail sales. When a month ends on a weekend, the tax revenue for those weekend sales is not collected until the first part of the next month. June of last year ended on a weekend, so July 2002 sales tax collections benefitted. This year June did not end on a weekend and so there was not a similar extra spillover of sales tax collections into July 2003. July's sales tax collections from motor vehicle transactions were up 3.1%, while collections from all other retail transactions were down 11.1%. So far in FY 2002-03, sales tax collections are up 0.6% and are on track to hit the consensus estimate of 1.0% growth for FY 2002-03.

Single business tax collections totaled \$222 million in July, which was down 15.8% from last year's level. A quarterly payment was due on July 31, and some of these payments will not be received until August. Based on collections during the first 10 days of August, it appears that the combined collections in July and August will be on target with the estimates. Single business tax collections so far this fiscal year are down 8.7%, which trails the 4.4% decline estimated for FY 2002-03.

The table on the back of this report identifies the major taxes included in this report, and provides their respective revenue levels and growth rates for July 2003, along with their fiscal year-to-date revenue collections and growth rates. Also presented are the revenue estimates for FY 2002-03, which were adopted at the May 2003 Consensus Revenue Estimating Conference.

*Jay Wortley, Senior Economist*



**MICHIGAN REVENUE UPDATE**  
**JULY 2003**  
(dollars in millions)

Type of Revenue	July Collections		FY 2002-03 to Date <sup>2)</sup>		FY 2002-03 Estimate <sup>3)</sup>	
	Total <sup>1)</sup>	% Change From Year Ago	Total <sup>1)</sup>	% Change From Year Ago	Total <sup>1)</sup>	% Change From Year Ago
Gross Income Tax	\$ 507.2	(8.1)%	\$ 5,631.3	(2.7)%	\$7,473.7	(0.9)%
Refunds	(23.7)	9.7	(1,454.9)	10.2	(\$1,493.8)	3.2
Net Income Tax	\$ 483.5	(8.8)%	\$ 4,176.4	(6.6)%	\$5,979.9	(1.9)%
Sales Tax	577.7	(8.8)	4,774.1	0.6	6,504.1	1.0
Motor Vehicles	107.3	3.1	771.4	0.2	—	—
All Other Sales Tax	470.4	(11.1)	4,002.7	0.6	—	—
Use Tax	106.7	(10.9)	915.7	(6.6)	1,257.2	(3.8)
Tobacco Taxes	78.0	45.8	654.7	48.3	867.9	29.5
Single Business Tax	221.5	(15.8)	1,411.8	(8.7)	1,895.6	(4.4)
Insurance Tax	32.1	(6.7)	178.7	6.1	250.8	10.4
State Education Property Tax	19.4	(39.6)	953.3	(0.7)	2,117.2	33.7
Real Estate Transfer Tax	21.1	(21.3)	184.6	2.8	260.0	2.7
Estate/Inheritance Tax	8.8	(41.7)	78.9	(25.8)	102.3	(21.9)
Casino Gaming Tax	7.5	2.7	68.3	(1.0)	91.0	(1.0)
Oil & Gas Severance Tax	3.4	(15.0)	39.5	63.9	42.0	36.8
<b>Total</b>	<b>\$1,559.7</b>	<b>(9.3)%</b>	<b>\$13,436.0</b>	<b>(1.9)%</b>	<b>\$19,368.0</b>	<b>3.0%</b>
<b>Addendum:</b>						
Gross Lottery Sales 4)	\$119.1	(3.4)%	\$1,391.4	(1.5)%	\$1,680.0	(0.4)%
Net to School Aid Fund 4)	\$ 40.9	(6.4)%	\$ 490.3	(3.8)%	\$ 588.0	(4.2)%

1) Total collections are unadjusted cash collections unless otherwise noted.

2) FY 2002-03 year-to-date collections begin with November 2002 collections to reflect accrual accounting.

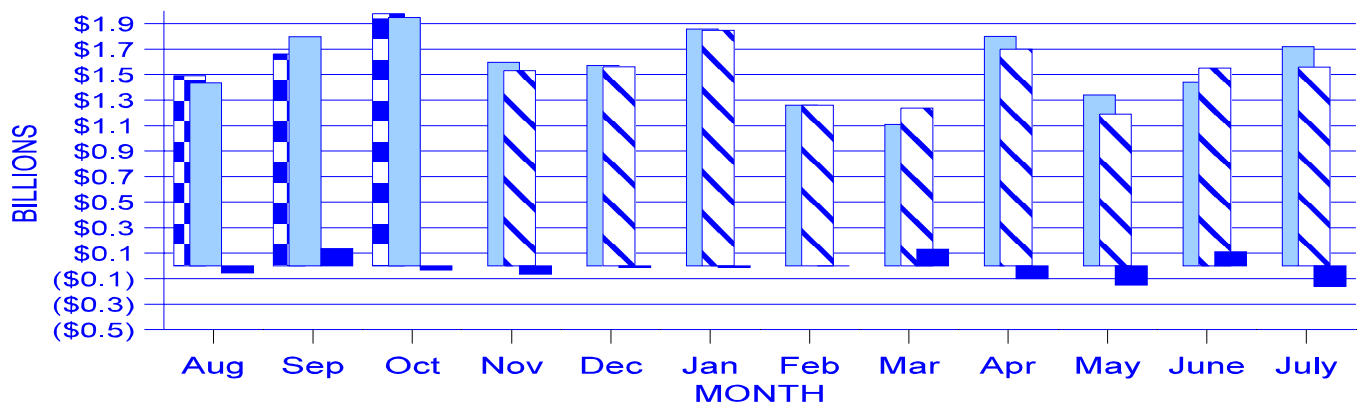
3) Revenue estimates adopted at the May 13, 2003, Consensus Revenue Estimating Conference.

4) Lottery revenue is not accrued, so FY 2002-03 lottery revenue will include October 2002 to September 2003.

## Actual Revenue Collections for Major State Taxes\*

August 2001 to July 2003

CASH COLLECTIONS (Billions of Dollars)



\*Comparison of actual collections. Major taxes include the net income (gross collections less refunds), sales, use, tobacco (cigarette tax and other tobacco products tax), SBT, insurance retaliatory, estate, oil and gas severance, State education, real estate transfer, and casino wagering taxes.